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FISCAL IMPACT STATEMENT

LS 6681 | **NOTE PREPARED:** Jan 10, 2006
BILL NUMBER: HB 1403 | **BILL AMENDED:**

SUBJECT: Elimination of Textbook Rental Program.

FIRST AUTHOR: Rep. Oxley | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
DEDICATED
X FEDERAL

Summary of Legislation: *Elimination of Textbook Rental/Reimbursement-* The bill abolishes the textbook rental program for public school students.

Definition of Textbook- The bill expands the definition of "textbook" to include materials used in student instruction.

School Textbook Fund- The bill requires school corporations to establish and appropriate money from a textbook fund to purchase all needed textbooks for loan without charge to corporation students.

Textbook Grant- The bill provides an annual state textbook grant equal to $95 multiplied by the average daily membership of a school corporation. The bill requires the deposit of grant funds in the textbook fund.

Effective Date: July 1, 2006.

Explanation of State Expenditures: *Textbook Grants*- School corporations would be eligible for a state grant per ADM of $95. The projected costs of these grants to public schools would be approximately $46.9 M in CY 2006 and $94.3 M in CY 2007. On a fiscal year basis, the ADM grant for public schools would require state expenditures of approximately $94.1 M for FY 2007, $94.5 M for FY 2008 and $94.9 for FY 2009. The amount of textbook reimbursement for nonpublic schools was $248,842 during school year 2004-2005.

The bill increases the calendar year cap for tuition support by an additional $55.4 M in CY 2006 and $94.9 M in CY 2007 to cover the proposed textbook grants to public schools.

Elimination of Textbook Rental/Reimbursement- *Background*: The School Textbook Reimbursement Contingency Fund provides school corporations and accredited nonpublic schools reimbursement from the Department of Education for a portion of the costs incurred during a school year in providing classroom instruction to children who meet the federal free and reduced lunch standards. Prior to school year 1999-2000, the program only provided assistance on behalf of students meeting free lunch standards. The appropriation to the Textbook Reimbursement Account for FY 2006 is $19.9 M.

Reimbursement Rates and Participation: During the 2004-2005 school year, 293 corporations and 151 accredited nonpublic schools participated in the textbook reimbursement program. School corporations and nonpublic schools were reimbursed at 69.5% of textbook costs for qualifying students during school year 2004-2005.

Requirements for Participation: The school corporation or accredited nonpublic school must file a claim with the Department of Education before November 1 of the current school year. The claim must include the number of eligible students and the associated costs for textbooks, consumable textbooks, and workbooks. The claim must include copies of all filed and approved applications for free and reduced lunch recipients. The approved applications must include data required by the Family and Social Services Administration (FSSA) with regard to Temporary Assistance to Needy Families to be considered by the Department of Education for reimbursement under this program.

Distribution: Funds are distributed in April of each school year. In the event there are funds available, a second distribution based on supplemental claims may be made later in the spring. If the amount of reimbursement requested exceeds the amount appropriated, the Department of Education is required to proportionately reduce the amount of reimbursement to each school corporation and nonpublic school.

Potential Impact on the TANF Block Grant Program- The elimination of the Textbook Rental Program may impact the Temporary Assistance for Needy Families (TANF) program. The state is required to meet a specified maintenance-of-effort (MOE) level in order to qualify for the federal TANF block grant of approximately $200 M annually. Indiana's annual TANF MOE obligation is approximately $120 M. FSSA meets this obligation by expending state funds appropriated for this purpose and by claiming expenditures from other state agencies that meet the purposes and requirements of eligible TANF MOE expenditures.

FSSA has been able to include about $11.6 M as MOE of the state expenditure for textbooks in FY 2005, given it is an expenditure for low-income students. However, since the proposed textbook grant program is targeted at the general student population, the state expenditure will not qualify as an MOE expenditure, thus requiring either additional expenditures in another program or reclassification of existing, but unidentified, expenditures as MOE. (The reclassified funds, if qualifying, must also demonstrate an increase in expenditures from the TANF base year. Only the increase in funds can be included as meeting the TANF MOE requirement. For this reason, the FSSA cannot count the entire $19.9 M textbook expenditure described above as MOE.)

Poor Relief/Reduction of PTRC- With the changes in tax law by HEA 1001-2002(ss), the state currently pays 16.2% of the Property Tax Replacement Credit (PTRC) on Poor Relief levies. The reduction in the Poor Relief levy explained under local revenues will result in a projected savings to the state paid by PTRC of $77,100 in FY 2007 (16.2% of $476,000). PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Therefore, any reduction in PTRC reduces expenditures from the state General Fund.

The following table illustrates the potential net cost to the state regarding the provisions of this bill assuming projected levels of PTRC and textbook appropriations that continue beyond the biennium at the FY 2006 and FY 2007 level.

FY	Textbook Grants	Elimination of State Appropriation for Textbooks	Less: Reduction in PTRC	**Net Cost***
2007	$94.1 M	($19.9 M)	($0.077 M)	**$74.1 M**
2008	$94.5 M	($19.9 M)	($0.080 M)	**$74.5 M**
2009	$94.9 M	($19.9 M)	($0.084 M)	**$74.9 M**

*As described above in the TANF section, the net cost to the state described in the table could increase by up to $11.6 M per fiscal year if additional expenditures in another program are required. However, reclassification of existing, but unidentified, expenditures could mitigate the net increase.

Explanation of State Revenues:

Explanation of Local Expenditures: School corporations may have additional funds to spend if revenue from the proposed state grant exceeds the current funding sources as explained in *Explanation of Local Revenues.*

This bill would require that school corporations pay for textbooks regardless of whether a state appropriation is made.

Explanation of Local Revenues: School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the Federal Free and Reduced Lunch Program, and financial assistance from township trustees (Poor Relief). As proposed by this bill, school corporations would be eligible to use the state grant of $95 per ADM instead of the above sources. In FY 2005, schools collected revenue of $60.6 M in textbook rental fees from students.

Max Levy Reduction- The Department of Local Government Finance would be required to reduce the maximum levy and township assistance levy in each township and the maximum levy and general fund levy of each school corporation to reflect the changes in textbook funding.

State Agencies Affected: Department of Education; Department of Local Government Finance.

Local Agencies Affected: School corporations.

Information Sources: Department of Education ORACLE Data Tables; Debbie Hineline, Department of Education; David Nelson, Family and Social Services Administration.

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